

What happens in
Manitoba...



Annual Report 2009/10

COMMUNITY PARTNERSHIPS BUILD TOURISM AND BUSINESS - SEE PAGE 33

THE CANADIAN CANCER SOCIETY - MANITOBA'S RELAY FOR LIFE IS ONE OF MANY EVENTS SUPPORTED BY MANITOBA LOTTERIES - SEE PAGE 21



EDUCATIONAL OPPORTUNITIES AND EMPLOYEE PROGRAMS HELP MAKE MANITOBA LOTTERIES ONE OF THE PROVINCE'S TOP EMPLOYERS - SEE PAGE 25

...stays right here in
Manitoba.

As a business and major employer with strong community support and employee voluntarism programs, we do more than just provide entertainment for Manitobans – we are truly invested in supporting this province. All of our net income goes to the Province of Manitoba to fund priority programming in health care, education, community and social services and economic development. It is why we are proud to be a Manitoba company and it is how we strive to make a difference right here at home.



Letter of Transmittal

HONOURABLE STEVE ASHTON

Minister responsible for Lotteries
Room 203, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

September 23, 2010

Dear Honourable Minister:

I have the honour to present you with the Annual Report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 2010.

Respectfully submitted,

(originally signed by)

Tim Valgardson

Chair, Board of Directors

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About Manitoba Lotteries

Who we are

Manitoba Lotteries, with offices in Winnipeg, Morris and Brandon, is a Crown corporation of the Province of Manitoba responsible for the conduct and management of gaming in the province, with the exception of licensed charitable gaming. We report to the Minister responsible for *The Manitoba Lotteries Corporation Act* through our Board of Directors.

What we do

Manitoba Lotteries owns and operates Club Regent Casino and McPhillips Station Casino in Winnipeg, as well as Manitoba's Video Lottery Terminal network from offices in Morris. We are the exclusive supplier of breakopen tickets and bingo paper in the province and distribute and sell tickets for lotteries operated by the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation. To accomplish this, we have formed successful partnerships with the lottery retail industry, the hospitality industry, Veterans' organizations and First Nations communities throughout Manitoba.

Who benefits

We all benefit as Manitobans through the many ways our income is reinvested into the province of Manitoba. Our total gross revenue reached \$767.6 million in 2009/10, with net income of \$306.7 million. This revenue supports government programs in health care, education, community and social services, as well as economic development.

Where the Money Goes

Revenues
\$767.6 MILLION

Public Benefits (Net Income)
\$306.7 million

Other Cost of Sales & Expenses
\$223.2 million

Contributions Paid to Siteholders
\$120.7 million

Salaries & Benefits
\$89.3 million

Education, Health & Other Government Programs
\$229.5 million

Allocated to priority provincial government programs that provide health care, education, community and social services and economic development

Municipalities
\$19.3 million

Paid as unconditional grants to support Manitoba's municipalities

Community Development
\$50.4 million

Dedicated to community economic development projects through the Rural Economic Development Initiative (REDI) and the Urban Development Initiatives (UDI)

Winnipeg Police Service
\$7.5 million

Allocated to the City of Winnipeg Police Service

Supporting Our Communities
\$5.7 million

Responsible Gaming Initiatives
\$4.0 million

Payments to Other Levels of Government
\$18.0 million

Corporate Framework

Our Vision

We are recognized as an enterprising and progressive business inspired to be the best at understanding and exceeding your entertainment expectations.

Our Mission

To create an exciting entertainment experience in a socially responsible manner to generate benefits for all Manitobans.

Our Core Values

INTEGRITY

We are fair, honest, respectful, transparent and trustworthy.

SOCIAL RESPONSIBILITY

We are committed to business, social, responsible gaming and environmental practices which are sustainable and add lasting value to our communities.

INNOVATION

We embrace change and encourage innovation. We seek out and pursue opportunities that contribute to personal and business growth.

LEARNING-FOCUSED

We learn from our experiences, and acquire knowledge and talent to continually progress.

LEADERSHIP

We are committed to excellence in everything we do and are dedicated to achieving results that exceed expectations.

DIVERSITY

We value the skills, strengths and perspectives of our team members, providing an environment where all individuals can develop and perform to their full potential.

Message from our Chair



What happens in Manitoba, stays right here in Manitoba.

Many Manitobans will recognize Manitoba Lotteries as a partner and sponsor of some of their favourite community events and organizations. We are proud to support our communities in that way, yet our impact on the province extends well beyond our community sponsorships and includes a wide range of added economic value. From operating and capital investments, to employment, to additional visitor spending, our business makes a significant contribution to various industry sectors and the overall provincial economy. Looking back at all that we have achieved in 2009/10, we have further strengthened our connections to our province, our communities and the people who call Manitoba home.

Our continued commitment to good corporate citizenship is the cornerstone of our operations, highlighted in 2009/10 with the release of our Corporate Social Responsibility (CSR) Update. The report focused on our dialogue with Manitoba stakeholders about our commitment to CSR, ensuring that community feedback is what guides our direction and decisions. By listening to our stakeholders' perspectives, we have been able to better align our CSR goals for the future. We also developed a CSR section on the Manitoba Lotteries website last year to further open the lines of communication.

As a recognized leader in the gaming industry, we often bring our expertise to the national level in collaborative efforts with other jurisdictions on responsible gaming. By taking a strong leadership role for a national responsible gaming committee, we are helping drive

responsible gaming research, evaluation, training, program development and communication with players and the public. In the process, we are helping to move Canada to the global forefront of responsible gaming.

Manitoba Lotteries again demonstrated its consistently high caliber of performance and social responsibility by receiving many awards last year. For the sixth consecutive year, the corporation was recognized with the Distinguished Budget Award from the Government Finance Officers Association. We also maintained our Progressive Aboriginal Relations Gold Level Status from the Canadian Council for Aboriginal Business. And, for the seventh consecutive year, the Human Resource Management Association of Manitoba recognized Manitoba Lotteries for our human resources practices and programs. There were additional new awards received, as highlighted elsewhere in this report.

On behalf of the Board of Directors, I would like to take this opportunity to give a sincere thank you to all of the employees who make Manitoba Lotteries so successful. Your hard work, dedication and commitment to both the job and going above and beyond, make me proud to be a part of this great Manitoba company.

(originally signed by)

Tim Valgardson
Chair, Board of Directors



Message from our **President & CEO**

While it seems obvious that a Crown corporation is an important economic driver of the province in which it operates, it takes more than just financial prudence to make a difference. It takes effort and commitment to really be a part of the fabric of our community, and it takes human interaction to make it meaningful. At Manitoba Lotteries we take that commitment seriously. With about 1,900 employees who call Manitoba home, we work hard to incorporate a philosophy of community involvement, responsibility and support into everything we do as a business.

Our success was once again recognized as one of the Top 25 Employers in Manitoba, featured annually in Maclean's magazine. It was an honour to share this designation with so many of the province's highest performing companies, from both the private and public sectors. We were also honoured to be selected as one of 45 employers (out of a field of over 2,600 applicants) for Canada's Best Diversity Employers for 2010. We earned this recognition by integrating a wide range of programs that promote diversity in the workplace.

We also received funding support from the Government of Canada to develop exciting new programming within our Canadian Gaming Centre for Excellence. This essential skills training program will foster basic skill sets needed for new employees in the gaming industry and other industries. The programming is specifically geared to assist new Canadians and aboriginal people in their early-career development.

On a personal note, I am pleased to announce that Chris Yanke, one of our electrical journeypersons, has been named Journeyperson of the Year by the Manitoba government for going above and beyond the requirements of the job. And Marlene Kendall, one of our senior auditors, was recognized by the Institute of Chartered Accountants of Manitoba for her outstanding volunteer contributions over the past 20 years.

Integrating the interests and preferences of the people of Manitoba into our business offerings, Manitoba Lotteries continued to deliver a superior customer experience in 2009/10. During this time, we successfully opened the Upperdeck Sports Bar at McPhillips Station Casino which features a comprehensive entertainment experience including live entertainment, pay-per-view events and much more. The corporation also invested in upgrades to our live stage areas at both casinos, which showcase state of the art sound and lighting systems for an enhanced live concert experience.

Our valued table games players can now take advantage of our rewards program with their Club Card membership. Other improvements to the Club Card include new responsible gaming features tied to electronic gaming as well as expanded customer promotion offers. These improvements are the result of continuous customer research and dialogue, which helps us identify and deliver future product and service offerings.

Doing our part to preserve Manitoba's environment is one of the goals of our ongoing sustainable development efforts. Last year, we maintained our status as a carbon neutral organization and we achieved BOMA BEST Level 1 certification for Club Regent Casino and McPhillips Station Casino based on our implementation of a variety of environmental programs. In order to link our sustainable development goals to our partnerships within Manitoba's communities, we are also helping to bring a green approach to events like Volunteer Manitoba's Annual Volunteer Appreciation Event.

Before I close, I am pleased to report that financially, Manitoba Lotteries experienced another successful fiscal year with a net income of \$306.7 million for 2009/10. This revenue directly supports priority government programs in health care, education, community and social services as well as economic development in Manitoba.

I would like to express my sincere thank you to the Board of Directors and all of the dedicated Manitoba Lotteries employees. Last year's successes were made possible by the efforts you put in each and every day to make our corporation a great place to work and which allow us to be an important contributor to Manitoba's healthy economic future.

(originally signed by)

Winston Hodgins
President & CEO

Corporate Governance

Corporate Governance guides the long-term goals and strategic plans of Manitoba Lotteries and sets out the best practices and guiding principles to help us make corporate decisions. Our corporate governance model outlines the authority and accountability among the different levels of Manitoba Lotteries, particularly at the Government, Board and Executive Management levels.

The Board sets corporate policy for the corporation and provides strategic direction to the CEO and senior executives, who are responsible for our business operations.

THE FUNCTION OF THE BOARD IS ASSISTED BY THE WORK OF THE FOLLOWING COMMITTEES:

- Planning & Policy
- Finance & Operations
- Audit & Risk Management
- Human Resources & Compensation
- First Nations Gaming
- Governance

THESE CORPORATE GOVERNANCE POLICIES ARTICULATE CORPORATE RULES AND RESPONSIBILITIES:

- Corporate Governance
- Board/Executive Management Relationship
- CEO Responsibility
- Corporate Strategic Planning
- Corporate Performance Management
- Internal Audit
- Conflict of Interest
- Board of Directors and CEO Expenses
- Risk Management
- Corporate Social Responsibility

Whistleblower Legislation Report

WHISTLEBLOWER PROTECTION ACT

In response to the enactment of *The Public Interest Disclosure (Whistleblower Protection) Act*, on September 26, 2007, Manitoba Lotteries implemented the Whistleblower Protection Policy and put into place a process through which Manitoba Lotteries employees can report serious and significant wrongdoings observed in the workplace without fear of reprisal.

Since the implementation of the Whistleblower Protection Policy and the related disclosure process in September 2007, no disclosures have been received from Manitoba Lotteries employees, no investigations were started, and no general inquiries were received.



Board of Directors

[Top row, from left to right]

Jean-Paul Gobeil Winnipeg **Bev Romanik** Brandon **Nicole Campbell** Portage la Prairie **William Crawford** Winnipeg **Walter Kolisnyk** Minnetonka **Tim Valgardson** Chair, Winnipeg **Karen Botting** Vice Chair, Winnipeg **Gerald Kolesar** Winnipeg **Lisa Settee** Winnipeg **Carolyn Wray** Winnipeg **Gerald Rosenby** Winnipeg

Executive Management Team

[Second row, from left to right]

Winston Hodgins President & CEO **Dan Sanscartier** Acting Vice President, Gaming Operations **Walter Nykolyszyn** Executive Director, Internal Audit & Corporate Compliance **Tracy Graham** Executive Vice President & Chief Financial Officer **Wayne Perfumo** Acting Vice President, Entertainment & Hospitality Venues **Marilyn Robinson** Vice President, Corporate Marketing & People Services **Susan Olynik** Vice President, Communications & Public Affairs

[Third row, from left to right]

Peter Hak Executive Vice President, Corporate Services **Larry Wandowich** Executive General Manager **Max Dressler** Executive Vice President, Gaming Operations

Strategic Planning & Key Performance Indicators

2009/10 to 2011/12

Quality Products

Responsibility to Community

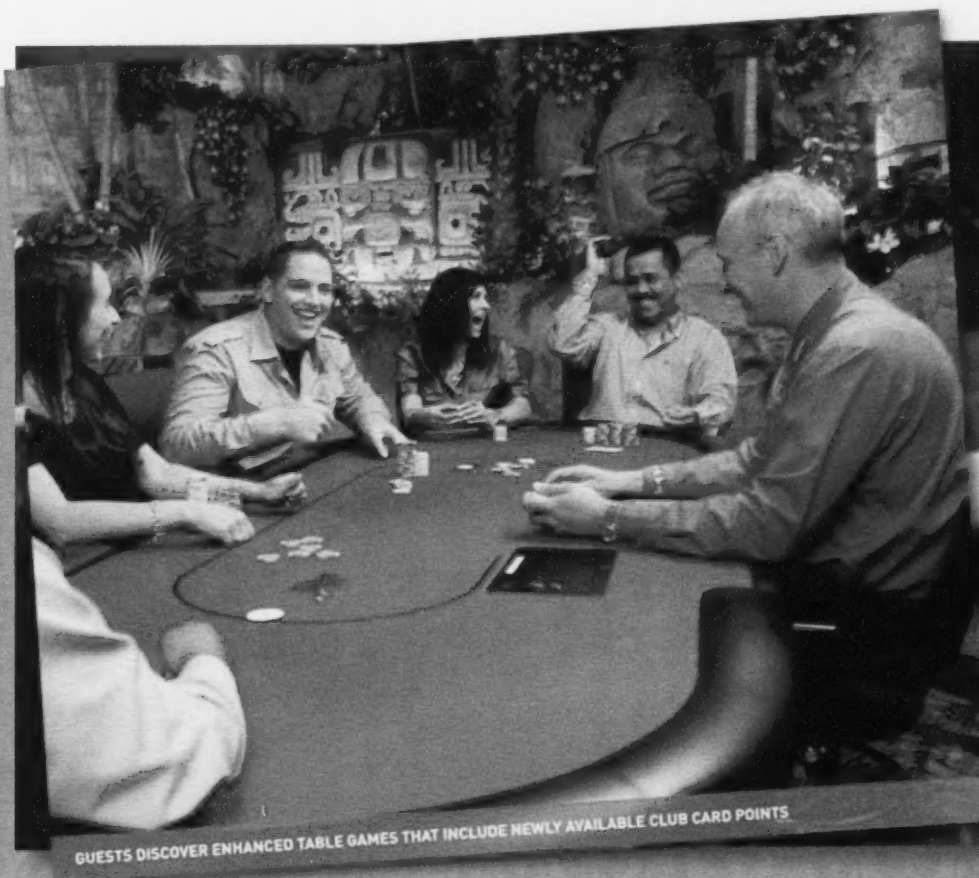
Corporate Goal	Objective	Performance Indicators	Status for 2009/10	Target for 2011/12
A Satisfied Customer	Increase overall customer satisfaction rating	Overall Customer Satisfaction – Casinos Tool Used: Casinos Customer Satisfaction Study	75%	85%
	Increase revenues	Gross Revenue Tool Used: Financial Statement Reporting	\$767.6 million	\$805.6 million
Be recognized as a valued member of the community	Increase public awareness of Manitoba Lotteries' Corporate Social Responsibility	Public awareness of Manitoba Lotteries Sponsored Events, Programs and Charities Tool Used: Corporate Image Study	15%	Target to be developed based on new survey instrument
	Improve public perception of Manitoba Lotteries as a responsible member of the community	Percent of public who report a favourable impression of the way Manitoba Lotteries manages gambling in the province Tool Used: Corporate Image Study	48%	56%

Strategic Planning is how Manitoba Lotteries determines the steps needed to move toward our goals as they relate to our five key strategic areas. With the process now formalized, divisional strategy maps help illustrate the alignment of division level and department level activities, while supporting the corporation's goals and priorities. This tool helps show employees how their roles link directly to what Manitoba Lotteries is striving to achieve. Our three-year Strategic Plan culminates in 2011/12.

Corporate Goal	Objective	Performance Indicators	Status for 2009/10	Target for 2011/12
Be efficient and effective	Contain operating expenses	Operating Expenses as a Percent of Gross Revenues Tool Used: Financial Statement Reporting	17.6%	18.0%-19.0%
	Contain operating expenses	Net Income Tool Used: Financial Statement Reporting	\$306.7 million	\$312.7 million
Retain and grow our customer base	Increase participation in Manitoba Lotteries' products and services	Number of Club Card Members Tool Used: Patron Management System	117,741	130,000
	Increase participation in Manitoba Lotteries' products and services	Percent of Public who are Manitoba Lotteries Customers Tool Used: Gaming Market Tracking Study	55%	59%
	Increase attendance at Winnipeg's casinos	Percent of Out of Town Visitors Tool Used: Customer Satisfaction Study and Attendance Tracking System	21%	22%
A knowledgeable workforce of highly satisfied employees	Increase Employee Engagement	Employee Engagement Tool Used: Employee Excellence Survey	72% Based on 2008 survey results	75%

Strategic Direction 2009/10

Looking back at Manitoba Lotteries' accomplishments in 2009/10, a unifying theme is evident – we are truly part of the fabric of Manitoba. Manitoba Lotteries is focused on serving our province by achieving goals within strategic areas outlined in the following pages.



GUESTS DISCOVER ENHANCED TABLE GAMES THAT INCLUDE NEWLY AVAILABLE CLUB CARD POINTS

Quality Products

As an entertainment provider, Manitoba Lotteries strives to offer quality products to create ongoing customer satisfaction. We work closely with our suppliers to acquire innovative and exciting games for the Manitoba market, backed by solid research. This also helps us continue to foster strong ties with our business partners in support of the provincial economy.

Our Goal

A satisfied customer.

Our Achievements

MEETING MARKET EXPECTATIONS

Enhancing the technology behind many of our casino games brought many improvements, including the means to add Player Choice Limits as a new responsible gaming feature. Player Choice Limits allow Club Card members to set time and money limits on their play. Another related improvement was the new promotional tool called Gold Play – an exciting way to offer rewards to new and other Club Card members and promotion winners, in the form of free play on our slot machines.

A gaming floor is an ever evolving environment, and last year we again completed reconfigurations to improve customer flow. Older slot machines were replaced with new devices and our bingo gaming system was updated. We introduced a number of enhancements to poker including omaha variant, omaha hi/lo, live straddle bets, kill pots, no limit pots, and sit 'n go tournaments. We also introduced the highly successful Lucky Ladies Blackjack side wager on all shoe games, which has since become an integral part of our blackjack product. At McPhillips Station Casino, Touchbet Roulette terminals were installed on a trial basis and another baccarat table was added to our mini and midi baccarat offering.

As always, Winnipeg's casinos played host to an exciting lineup of local and visiting performers on its main stages and in its lounges. In 2009/10, nearly 80 main stage concerts were showcased at both casinos, featuring well known artists such as Kenny G, Wayne Newton, Air Supply, Glen Campbell and Loverboy. At McPhillips Station Casino, there were 289 live performances at the Upperdeck and 158 more at Jaguars Dance Club in Club Regent Casino, 90% of which were by Manitoba artists.

ENHANCING OUR FACILITIES

Last year we launched the Upperdeck Sports Bar which offers a mix of live and broadcast entertainment, games and great food. A menu fit for champions, pay-per-view events, poker and dart tournaments all added to the success of the Upperdeck this past year.

New sound and lighting systems were installed in both casino concert bowls to offer greater flexibility and options for performers and their crews, and a more immersive experience for concertgoers. Wi-Fi has been added to performer staging areas and in the multipurpose rooms used for private, corporate and media events. Patrons were also thrilled at the transformation of the gift shop at McPhillips Station Casino, relocated and expanded into a larger space for a more comfortable shopping experience.

STRENGTHENING CUSTOMER PROTECTION AND SERVICE

The Lottery Retailer Mystery Shop program was expanded to include all lottery locations in the province. The goal is to enhance procedural awareness amongst our retailers, so they can provide exceptional service to lottery customers.

A new lottery sales e-learning course was developed and implemented, as part of the corporation's commitment to ongoing training on proper ticket terminal procedures. This additional resource allows vendors throughout Manitoba to take the training at their convenience without having to travel.

The transition to allow all Scratch 'N Win lottery tickets to function at self-serve ticket checkers was completed last year. All retail locations throughout Manitoba are now furnished with self-serve ticket checkers and have converted to this system.

Across Manitoba and the rest of Canada, Lotto Max was launched in September 2009 to replace Super 7 and the new game's first major jackpot was won right here in Manitoba!

ENSURING SERVICE RELIABILITY

Manitoba covers a vast geographical area with many diverse communities. Delivering great products across Manitoba at Video Lottery Terminal (VLT) and Lottery sites, as well as in our casinos, requires diligence and a proactive approach.

Manitoba Lotteries has set service delivery targets, which we monitor for performance. Some of the key areas include preventive maintenance activity on slot machines and warehouse service delivery for bingo paper, lottery tickets and casino-bound products. The ongoing collection of monthly data allows for increases in productivity and the identification of service requirement trends.

We have also positioned ourselves to be better prepared for recovery in the event of a disaster. Manitoba Lotteries identified key department functions and processes,

and completed recovery plans for all systems, with all business divisions completing a comprehensive Business Impact Analysis. This extensive process has allowed our Information Technology division to prepare for disaster recovery, by identifying and prioritizing the unique needs of all divisions.

Physical improvements to our systems have also helped safeguard against, and mitigate, any potential disasters. Examples include enhanced network firewalls and redundant networks and systems. For instance, if a computer server at one casino happened to malfunction, another server would take over and our business operations would remain uninterrupted.

Our Next Steps

Improving our customer experience is an ongoing process. Manitoba Lotteries will continue to reinvest in our facilities and in new gaming technology to meet demand.

Some of the planned developments for the upcoming year include new procedures for Track betting on Roulette, introducing Baccarat Squeeze and a poker room at McPhillips Station Casino. We will design and install a sound system in Jaguars Dance Club using re-purposed equipment from the former Millennium Express Theatre. This will provide an environmentally friendly way to upgrade the Club Regent Casino venue.

As a key information source for our customers, we will be launching a dynamic new website at www.casinosofwinnipeg.com in the new year, offering navigation that is easy and fun to use.

Effective April 1, 2010, all lottery retailers in Manitoba will begin registering with the Manitoba Gaming Control Commission (MGCC). Based on amendments made to *The Gaming Control Act*, this change further protects Manitobans by ensuring the honesty and integrity of lottery retail operations and by providing players with an independent agency to review complaints. ♠



Winnipeg's casinos played host to an exciting lineup of local and visiting performers on its main stages and in its lounges – nearly 80 main stage concerts were showcased this past year



MANITOBA ARTIST GRAHAM SHAW & THE SINCERE SERENADERS



GOLD PLAY IS AN EXCITING ADDITION TO THE CASINO CLUB CARD



Responsibility to Community

We are proud to enrich the lives of Manitobans through our community support and voluntarism programs, and by acting as a corporate leader integrating sustainable development into our business model. Manitoba Lotteries also wants to ensure that gaming stays a form of entertainment, so we have made many comprehensive investments over the years in our responsible gaming programs and partnerships.

Our Goal

Be recognized as a valued member of the community.

Our Achievements

LISTENING TO OUR MANITOBA STAKEHOLDERS

Being a responsible corporate citizen is an important part of Manitoba Lotteries' role in the community. As part of our long-term Corporate Social Responsibility (CSR) strategy, we released our CSR Update last year, which highlights our stakeholder consultations. The Update, along with additional CSR information is now available at www.mlc.mb.ca.

FOSTERING OUR COMMUNITY PARTNERSHIPS

Our strength as an organization is due in part to the collaborative partnerships we have established right here in Manitoba with a variety of community organizations. To foster an efficient and transparent method for these organizations to apply for funding, we have launched a new online sponsorship tool. This tool provides detailed information to groups seeking support and sponsorship, and facilitates their application process.

Manitoba is home to many well-recognized and well-regarded community organizations and events. Many have been a part of the fabric of Manitoba for years, and they remain vibrant through the sustained support of the community. In 2009/10, Manitoba Lotteries formed new partnerships while also fostering continuing relationships with a host of established community networks.

In the past year our support was felt by over 400 community organizations including the Manitoba Theatre Centre Regional Tour, Saison Voyageur, Festival du Voyageur, Habitat for Humanity, Manitoba Lotteries MS Walk, Special Olympics, Canadian Cancer Society Relay for Life, the Manitoba Marathon, Manitoba Museum – Louis Riel Day, Dauphin's Countryfest, Brandon's Royal Manitoba Winter Fair, Folklorama, the Manitoba Lotteries Women's Curling Classic, Assiniboine Community College and many more.

Manitoba Lotteries Community Support Festival Program has been developed to build a stronger support within our rural communities by focusing on volunteerism within the numerous festivals, fairs and rodeos celebrated province wide. Through the festival program, these events will have the opportunity to unify and celebrate their volunteer efforts and ensure the volunteers don't go on unnoticed.

Our local Manitoba business connections are also important to us. We maintained our partnerships with the Winnipeg and Manitoba Chambers of Commerce, Eastside Aboriginal Sustainable Tourism (EAST) Inc., Filipino Express News (Pinoy Popstar), the Manitoba Hotel Association, the Manitoba Restaurant & Foodservices Association, the Forks North Portage Partnership and Assiniboine Community College, to name a few. Our successful partnership with EAST Inc. was recognized at the Tourism Manitoba awards in the spring of 2010.

SUPPORTING MANITOBA'S FRANCOPHONE CULTURE

As part of our commitment to furthering relationships with Francophone communities, Manitoba Lotteries recruited bilingual community events team members to be present at and help support many events throughout Manitoba including St. Laurent's Manipogo festivities, St. Malo's Festival of Friends, St. Pierre's Frog Follies, Festival du Voyageur and the St. Jean Baptiste Days parade.

Club Regent and McPhillips Station Casinos hosted four hospitality and culinary students from Strasbourg and Dijon, France, as part of an internship initiative with Agence nationale et internationale du Manitoba (ANIM) for five months last year. The students were featured in *La soirée chocolatée*, a fundraising event which raised money for the St. Boniface Hospital Research Foundation.

EMBRACING VOLUNTARISM

The spirit of voluntarism is alive at Manitoba Lotteries and demonstrated by our employees and their family and friends. Over the 2009/10 fiscal year, 615 of them volunteered in Manitoba's communities.

BUILDING ON RESPONSIBLE GAMING

As part of Manitoba Lotteries' ongoing commitment to responsible gaming, we have continued to implement elements of our Responsible Gaming Strategy. Our casino Club Card program now includes a pre-commitment responsible gaming tool that allows time and money limits to be set by customers when playing electronic games.

Responsible gaming information has become more accessible and more inviting through improvements at our casino-based Responsible Gaming Information Centres. These include a new touch screen technology, featuring interactive content about how gambling works and how to keep it fun.

Our commitment to Community Financial Counselling Services has been extended to fund the organization's program for those experiencing financial challenges due to gambling. An evaluation of this service last year indicated that key objectives were met, including quick access to service and an increased knowledge about financial management.

TAKING A NATIONAL APPROACH

Manitoba Lotteries works with other Canadian gaming jurisdictions as an organized group to share and compare

knowledge and best practices in the responsible gaming area. The corporation's Director of Responsible Gaming was the vice chair of that group last year, which is collaborating on inter-provincial initiatives in research, player and public information, staff training and program development.

Manitoba Lotteries participated in many national initiatives including the organization of the Responsible Gaming Information Centre Forum for the Canadian Partnership for Responsible Gaming (of which the corporation is an active member), in partnership with the Addictions Foundation of Manitoba (AFM). The AFM has been our key partner in operating Club Regent and McPhillips Station Casinos' Responsible Gaming Information Centres since 2002.

REDUCING OUR ENVIRONMENTAL IMPACT

An important part of our contribution to the community is being socially and environmentally aware of our impacts as an organization. Manitoba Lotteries continues to increase sustainability in areas such as solid waste reduction, greenhouse gas emission reductions, green product selection, fleet vehicle management, and sustainable education and awareness for employees. Since 2005 we have maintained our status as a carbon neutral organization and we remain proud to be the first and only gaming organization in Canada to be designated as such.



Both Club Regent Casino and McPhillips Station Casino achieved BOMA BEST Level 1 certification, which recognizes that our operation and maintenance practices meet industry standards for environmental practices. BOMA BEST is based on the implementation of environmental programs such as water and energy conservation, waste reduction and sustainable procurement practices.

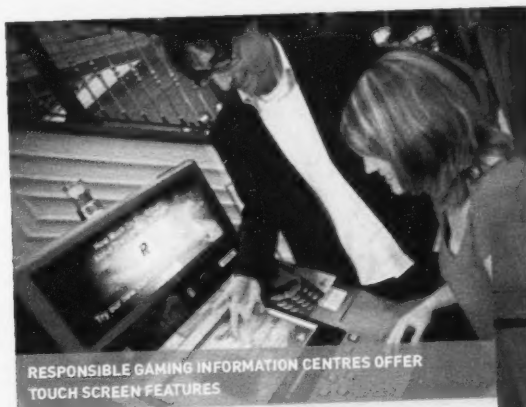
As part of our commitment to sustainable development we have Environmental Standards and Guidelines for energy and water consumption, fleet efficiency and other environmental benchmarks. Progress towards our targets is reported annually to our Board of Directors.

Our Next Steps

We will continue to build partnerships, strengthen business associations, promote responsible gaming and enhance our environmental sustainability. As part of the continuation of community dialogue, we will engage with more stakeholders next year and evaluate their feedback to further assist in the ongoing development of our CSR strategy. Manitoba Lotteries will also continue to collaborate on a national level to make further progress in the responsible gaming area.

The corporation will provide our support to community activities including Manitoba Homecoming 2010. We will also continue to pursue volunteer opportunities for our employees, their families and friends.

Slated for completion next year, we are also devising an Environmental Management System based on ISO standards. Work is focused on an internal audit process and operational control requirements. Also in sustainable development, working groups have been set up at each casino to support ongoing education and awareness. ♣



RESPONSIBLE GAMING INFORMATION CENTRES OFFER TOUCH SCREEN FEATURES



ASSINIBOINE COMMUNITY COLLEGE RIBBON CUTTING

(L-R) KENDALL JASON, STUDENT, MANITOBA INSTITUTE OF CULINARY ARTS; DREW CALDWELL, MLA BRANDON EAST; GORD PETERS, CHAIR, CAMPAIGN ASSINIBOINE - MANITOBA INSTITUTE OF CULINARY ARTS; JIM BRINKHURST, INTERIM PRESIDENT, ASSINIBOINE COMMUNITY COLLEGE; ELEYSHA HINTZ, STUDENT, MANITOBA INSTITUTE OF CULINARY ARTS

MANITOBA LOTTERIES FESTIVAL PROGRAM 2009/10

- **Summer in the City Festival**
Steinbach
- **Neepawa & Area Lily Festival**
Neepawa
- **Manitoba Threshermen's Reunion and Stampede**
Austin
- **Canada's National Ukrainian Festival**
Dauphin
- **St. Pierre-Jolys Frog Follies**
St. Pierre-Jolys
- **The Icelandic Festival of Manitoba**
Gimli
- **Festival of Friends**
St. Malo Provincial Park
- **Lynn Lake Carnival**
Lynn Lake
- **Festival Manipogo**
Saint-Laurent
- **Aurora WinterFest**
Churchill



VIDEO LOTTO EMPLOYEES IN MORRIS

People and Services

A strong and vital Manitoba workforce is at the heart of our organization. We are fortunate to have skilled and dedicated employees who bring their best to Manitoba Lotteries every day. At Manitoba Lotteries, employment is a path to many opportunities including an exciting career, voluntarism, continuing education and community involvement. Within our progressive work environment, we reward great work and empower employees to achieve their goals.

Our Goal

A knowledgeable workforce of highly satisfied employees.

Our Achievements

FOSTERING ESSENTIAL SKILLS

Manitoba Lotteries supports and celebrates a diverse workforce that represents all Manitobans. In late 2009, a two year pilot project called Developing Essential Skills for the Gaming/Casino Industry in Canada received a combined \$720,000 in funding from the federal government and gaming industry partners. Led by Manitoba Lotteries' Canadian Gaming Centre of Excellence, the project will focus on meeting the needs of new and potential employees including aboriginal or new Canadians and provide them with necessary training to work in the gaming industry. The training materials for this project will also be in a bilingual (French/English) format.

By providing Manitoba Lotteries employees with continuing education opportunities, we are assisting them in their career growth and development. One of the programs offered last year was the Service Coaching Program which trains participants to coach other employees in exceptional customer service and processes. Coaches are trained to make presentations, facilitate classroom learning and provide feedback to the students.

PROVIDING THE RIGHT TOOLS FOR THE JOB

Our employee orientation program, On Board, was enhanced last year. On Board incorporates several phases of training to provide information on a variety of important topics such as a corporate overview of our various product lines and services; customer service standards; responsible gaming initiatives and our diversity and respectful workplace philosophies.

Another successful employment training program we offer is the blended Apprenticeship Program which was created as an opportunity for apprentices to complete their education with full support while working at Manitoba Lotteries.

DEVELOPING NEW LEADERS

The Dimensions in Leadership Online Program is designed to develop the leadership competencies that enable supervisors and managers to achieve success as they implement initiatives in four strategic focus areas—people, financial, process and customer. The online version is a condensed version of the two-week instructor-led program.

PROMOTING EMPLOYEE COMMUNICATION, HEALTH AND SAFETY

The health and safety of employees and guests is paramount to Manitoba Lotteries. We continue to promote our culture of safety through active workplace safety and health committees, ongoing hazard recognition and control activities, new employee orientation and training programs. We conduct regular workplace inspections and investigation and follow up on all reported incidents.

Through the monitoring of incident trends, a 13% decrease has been noted in cost-related incidents from last fiscal year. Monthly safety and health campaigns are capped by the annual North American Occupational Safety and Health Week. Manitoba Lotteries has seen significant growth in the number of employee-requested ergonomic assessments, after increased awareness was generated.

About 600 employees attended the seventh annual Wellness Week to enjoy the theme of "Celebrate Good Life!" This annual event allows staff to gather and learn about personal wellness strategies in a fun and interactive atmosphere. It is usually held each year during the Canadian Healthy Workplace Week in October. This is supplemental to monthly education sessions that began in March 2010 on topics such as cancer awareness.

Being committed to a healthy workplace means communicating proactively regarding emerging health issues. Last year, Manitoba Lotteries informed employees about the H1N1 flu virus and its symptoms. We also provided information on flu prevention by offering personal hygiene tips and links to government websites for more in-depth content.

Our Next Steps

Manitoba Lotteries continues to improve its human resource programs and services to enhance job satisfaction. Plans are underway to implement an all employee business meeting entitled "The Big Picture", with a goal to inspire and energize employees as an integrated team that can work effectively towards our long term goals. Revisions will also be made to our employee recognition program.

The new Casino Service Standards Program will be implemented for front-line casino employees, supervisors and managers next year. Additional e-learning courses are also in development.

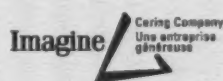
Our third Organizational Excellence Employee Survey will be conducted. Feedback is extremely important so that Manitoba Lotteries can improve as an organization to meet the needs of all employees. ♥



SUPPORTING A DIVERSE WORKFORCE REPRESENTING ALL MANITOBBANS

OUR RECOGNITION

- One of a select group of 45 companies chosen as a Best Diversity Employer in Canada out of a field of 2,600 applicants.
- Top 25 Employer in Manitoba since 2005.
- Progressive Aboriginal Relations Program: Gold Level Status awarded by the Canadian Council for Aboriginal Business. Manitoba Lotteries is the first Crown corporation in Canada to achieve the gold level, based on our commitment to sustainable Aboriginal relations.
- Human Resource Management Association of Manitoba: Manitoba Lotteries has been recognized for its human resources practices and programs for the past seven consecutive years.
- Imagine Canada: Caring Company designation for community support and corporate citizenship.
- Distinguished Budget Award by the Government Finance Officers Association of the United States and Canada: The highest form of recognition in governmental budgeting a local government can receive. This is our sixth consecutive year receiving the honour.



EQUITY PARTICIPATION RATES

Other 57.0%	Visible Minority 29.5%	Disabled 2.1%	Aboriginal 11.4%
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GENDER COMPARISON

Females 52.0%	Males 48.0%
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ALL SCRATCH 'N WIN TICKETS ARE NOW COMPATIBLE WITH SELF-SERVE TICKET CHECKERS

Operational Excellence

What goes on behind the scenes is what keeps Manitoba Lotteries operating successfully every day. By streamlining our processes, implementing leading edge technology, measuring our performance, and planning for the future, we continue to improve our business. This helps us reach our goal of providing quality entertainment and services, to generate revenue for the benefit of all Manitobans.

Our Goal

Be efficient and effective.

Our Achievements

CONVERGING OUR TECHNOLOGY

Developing a unified information technology structure will mean Manitoba Lotteries operations can deliver products and services that are seamless from the customers' perspective. The corporation has been working on a major, multi-year initiative called Convergence that will harmonize information gathered across our various systems, networks and products.

Convergence will not only improve management reporting, it will fundamentally impact how we deliver our products and services and will greatly enhance customer service. The first phase of this project is complete, having defined the business vision and key business drivers. Our next phase will define the architecture and outline a long-term road map for project completion.

ADDING EFFICIENCY THROUGH TECHNOLOGY

We have upgraded our telecommunications network between our Video Lotto office in Morris and our corporate office in Winnipeg. Data transfer is now faster, through a synchronized phone network, and cost savings were found in the process. Adoption of our universal phone system (Voice over Internet Protocol - VoIP), also makes it more seamless for anyone contacting employees regardless of their office location.

ESTABLISHING PROJECT MANAGEMENT STANDARDS

Last year saw the introduction of our new Project Management Office (PMO). The PMO was put in place to coordinate and track a multitude of projects underway at Manitoba Lotteries, and also to increase awareness of those projects.

Project managers are provided with support throughout their project's lifecycle using project management (PM) methodology and best practices from the Project Management Institute (PMI). In its first year, the PMO handled approximately 200 projects. The PMO is being developed as a Centre of Excellence for Manitoba Lotteries project managers. Standardized PM best practices and processes have been developed to provide guidance to employees.

MANAGING INFORMATION AND IDEAS

Last year, our records management processes were updated to ensure security and recoverability. In compliance with legislation related to appropriate retention, management and destruction of records and information, a comprehensive and corporate-wide inventory of paper records was completed along with a procedure for tracking and deploying filing systems. As part of this process a corporate-wide purge of obsolete paper records was completed.

ONGOING PLANNING AND POLICY DEVELOPMENT

The Strategic and Business Development department is helping advance strategic thinking within the organization and has met with all managers to discuss process improvements and provide training. A webpage was also added on the Manitoba Lotteries employee intranet to provide improved access to information and best practices. A new master planning schedule has also been implemented and the key processes of strategic planning, capital allocation, risk management and project management, have been integrated.

A new procurement policy was developed and implemented last year which integrates corporate strategy, planning and purchasing. Within the policy, roles and responsibilities as well as processes are well defined.

Our Next Steps

Every year we plan new initiatives to increase operational performance. Moving forward, we will complete the second phase of our Convergence Program. This phase defines the business, data, information, and technology architectures, plus outlines a high level roadmap to allow the company to transform from today's approach to how we should approach system implementation tomorrow. This will bring all products and services, from VLTs and valet service to concerts and dining, onto one system for a seamless customer experience.

The new Integrated Financial Management System (IFMS) is a comprehensive financial software system that will allow for improved information sharing and processing between business units. It is planned for full implementation in 2010/11. The new system will create efficiencies, facilitate auditing and introduce control mechanisms, as well as allow compliance with International Financial Reporting Standards. As part of the IFMS rollout, service delivery standards are being created for purchasing, accounting and financial planning areas.

Manitoba Lotteries will be centralizing its casino surveillance operations next year into a state-of-the-art custom facility to serve both properties' security, safety and gaming integrity needs. ♦



ONGOING EMPLOYEE TRAINING IS ESSENTIAL TO OPERATIONAL EXCELLENCE



UPPERDECK SPORTS BAR OFFERS A COMPLETE ENTERTAINMENT PACKAGE



PRESENTATION OF MANITOBA TOURISM AWARD FOR PARTNERSHIP; (L-R) JEFF PROVOST, GENERAL MANAGER EAST INC.; WILLIAM YOUNG, BOARD CHAIR EAST INC.; FLORE MARCELINO, MINISTER OF CULTURE, HERITAGE AND TOURISM; KAREN KINGSLAND, BUSINESS IMPROVEMENT REVIEW DEPARTMENT, MANITOBA LOTTERIES; PAUL ROBSON, BOARD CHAIR, TRAVEL MANITOBA

New Business Development

The success and growth of Manitoba Lotteries is dependent on our valued customers. By engaging with our customers through research and building new partnerships, we are able to understand exactly what products and entertainment they most want to experience.

Our Goal

Retain and grow our customer base.

Our Achievements

CELEBRATING WHO WE ARE

As part of our branding strategy, we introduced updated corporate and product logos last year. We utilized the distinct colour palette from our previous logo, to build on the equity and familiarity that we already had in the marketplace.

PROMOTING TOURISM IN MANITOBA

Winnipeg's casinos provide a variety of entertainment offerings for Manitobans and tourists. We were honoured this year by Tourism Manitoba for one of our unique cultural partnerships which draws visitors and residents alike to McPhillips Station Casino. Manitoba Lotteries shared the Partnership Award with Eastside Aboriginal Sustainable Tourism for co-creating the Aboriginal Artisan Showcase Market and Fashion Show. This unique event gives Aboriginal artisans from Eastern Manitoba the opportunity to display and sell their products and learn marketing and selling techniques.

UNDERSTANDING OUR CUSTOMERS

To gain insight into what our customers want to experience differently when enjoying our products and services, we engage in customer research. Last year, Manitoba Lotteries conducted customer insight sessions, consisting of focus groups made up of casino guests. Topics of discussion included our Club Card, bingo, poker and restaurant and lounge service.

Through the creation of various reporting mechanisms, Manitoba Lotteries is now able to review enhanced data analytics. This provides an improved foundation for ongoing business decision-making. We currently employ regular tracking studies including the Gaming Market Tracking Study, the Food & Beverage Tracking Study, and the Casino Customer Satisfaction Tracking Study. Last year, we also introduced a Lottery Ticket Retailer Satisfaction Survey to help improve the level of service Manitoba Lotteries provides to these business partners.

Our Next Steps

We will continue to seek out innovative stakeholder partnerships and new ways of extending our relationship with customers. We will also conduct research into online gaming and monitor other Canadian gaming jurisdictions with respect to online opportunities. ♠

Management Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS AS AT MARCH 31, 2010

The Management Discussion and Analysis reviews the consolidated financial results of the operation of Manitoba Lotteries Corporation for the fiscal year ended March 31, 2010. This report should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes. Management is responsible for

the reliability and timeliness of the information disclosed in the Management Discussion and Analysis and does so by implementing and monitoring the appropriate existence and effectiveness of systems, controls and procedures used by Manitoba Lotteries.

Overview and Vision

Manitoba Lotteries strives to provide its customers and guests with world-class products and services that meet or exceed expectations in a socially responsible manner.

Advances made toward achieving this goal within the past 12 months have resulted in an increase in financial performance as the Corporation's Net Income of \$306.7 million for the fiscal year 2009/10 increased by \$1.9 million or 0.6% as compared to the 2008/09 Net Income of \$304.8 million.

Revenues of \$767.6 million decreased \$8.0 million or 1.0% from the previous year's level of \$775.6 million. This decrease can be attributed to decreased revenues from Video Lotto and Lottery, offset by increased revenues in the Casinos. As part of Manitoba Lotteries' long-range strategic goal of creating full service customer satisfaction, the Corporation continually reviews existing product offerings in order to enhance customers' overall experiences.

Revenue, net of cost of sales and operating expenditures was \$555.5 million in 2009/10 compared to \$550.2 million in the previous year, an increase of \$5.3 million. Operating expenses of \$135.4 million were \$1.8 million higher than the previous year's \$133.6 million, and include payroll and other costs directly related to the generation of gaming and lottery revenues. This is primarily a result of increases in salaries and benefits related to collective bargaining, and increased maintenance costs related to building and equipment upgrades.

Amortization of \$30.5 million for 2009/10 decreased \$8.5 million from \$39.0 million in 2008/09. The decrease was a result of the video lottery terminal (VLT)'s being primarily fully amortized.

Results of Operations

The three operating segments of the Corporation are Video Lotto, Casinos and Lottery. For reporting purposes, the administrative costs associated with corporate support services, including human resources, finance and administration, marketing, facilities, technology, audit, security, communications and public affairs, have been allocated to each of the operating segments outlined below.

During the 2009/10 fiscal year, the Corporation reviewed the allocation method being used to allocate general and administrative costs to its business units. This review resulted in a reduction in the costs being allocated back to the Casinos and corresponding increases to both Video Lotto and Lottery. Comparative information has not been restated as the 2009/10 allocation of overhead charges reflects new estimates not applicable in the 2008/09 fiscal year.

Video Lotto

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at Manitoba Liquor Control Commission licensed beverage rooms, Veterans' organizations, First Nations communities, Assiniboia Downs and the MTS Centre.

Operating Segments of Manitoba Lotteries

VIDEO LOTTO

CASINOS

LOTTERY

The operation of VLTs contributed over 58.3% of Manitoba Lotteries' Net Income and provided annual commissions of \$61.0 million to all VLT siteholders who operate equipment on their premises.

Gross Revenue of \$340.5 million in 2009/10 decreased by \$13.7 million from the Gross Revenue of \$354.2 million in the previous year. Net Income of \$178.8 million decreased \$15.7 million from the Net Income of \$194.5 million in the previous year. During the 2009/10 fiscal year, the Corporation redistributed VLTs from low performing sites to higher performing sites, which helped to offset the decrease, however, revenues continued to decline due to the economic climate and other factors.

In January 2010, there was a change to the commission structure for First Nations (FN) and commercial siteholders, as well as Assiniboia Downs. The service component provided to Manitoba Lotteries was reviewed resulting in this change. The new commission structure is now more reflective of the actual service which siteholders provide as the host of the VLT equipment. There are no changes to the commission structure for the MTS Centre or Veterans' organizations.

ASSINIBOIA DOWNS

Manitoba Jockey Club Inc. receives 75% of net win from the VLTs at Assiniboia Downs. Prior to January 1, 2010, 20% of the VLT revenues represented commissions paid for the service provided to Manitoba Lotteries for hosting VLT equipment. The remaining 55% represented a contribution to support horse racing in the province. Effective January 1, 2010, of the revenue generated by the VLTs, the Manitoba Jockey Club Inc. now receives 10% commission and 65% contribution.

FIRST NATIONS

First Nations siteholders will continue to retain 90% of net win from the VLTs. Of that 90%, 5% of the net win is more reflective of the actual service component provided (instead of the previous 20%). The contribution that FN siteholders receive to promote sustainable social and economic benefits and opportunities with the FN communities, has been raised from 70% to 85%.

COMMERCIAL

Commercial siteholders will continue to retain 20% of the net win from VLTs. However, it was determined that 10% of the net win is more reflective of the actual service component that siteholders provide. The other 10% is provided as a contribution to siteholders so they continue to promote tourism in the province.

PAYOUT PERCENTAGES BASED ON DOLLARS WON AND PLAYED -

Video Lotto

Dollars Deposited	\$ 1,449	
Dollars Played		\$ 4,766
Dollars Won		\$ 4,428
Dollars Cashed Out	\$ 1,111	
Revenue	\$ 338	\$ 338
Dollars Won (Prizes)	\$ 4,428	
Dollars Played	\$ 4,766	92.9%

PAYOUT PERCENTAGES BASED ON DOLLARS WON AND PLAYED -

Casinos

Dollars Deposited	\$ 1,045	
Dollars Played		\$ 2,216
Dollars Won		\$ 2,036
Dollars Cashd Out	\$ 865	
Revenue	\$ 180	\$ 180
Dollars Won (Prizes)	\$ 2,036	
Dollars Played	\$ 2,216	91.9%

Casinos

Manitoba Lotteries owns and operates two Casinos in the City of Winnipeg – Club Regent Casino and McPhillips Station Casino. Casino operations generated Gross Revenue of \$221.6 million in 2009/10, an increase of \$10.8 million or 5.1% more than the Gross Revenue of \$210.8 million of the previous year.

Casino Net Income of \$72.7 million increased from the previous year's Net Income of \$50.6 million by \$22.1 million or 43.7%. In 2009/10, there was a continued focus on the Casinos as a total entertainment destination, resulting in increased visitor traffic for non-gaming related amenities. Throughout the fiscal year, there was a focus on improving our gaming offerings by updating certain games and also by introducing new games. The Club Card program which allows patrons to accumulate points redeemable for

non-gaming goods and services continues to be favorably received by customers and contributed to the successful operations of the Casinos during the 2009/10 year.

Lottery

The Province of Manitoba is a member of the Western Canada Lottery Corporation (WCLC), a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities in the prairie provinces and the territories. Manitoba Lotteries distributes and sells tickets for national lotteries operated by the Interprovincial Lottery Corporation (ILC) and lottery gaming products operated by the WCLC. As the province's sole distributor of Lottery products, Manitoba Lotteries is responsible for the development and maintenance of a retailer network of over 850 outlets across Manitoba and market a selection of breakopen tickets through lottery retail outlets, charitable organizations and casinos across the province. Manitoba Lotteries also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In fiscal 2009/10, Lottery Gross Revenue of \$205.5 million decreased from the previous year's Gross Revenue of \$210.6 million by \$5.1 million or 2.4%. This decrease is attributed to decreased sales of instant tickets, Lotto 6/49 and the Extra. Net Income of \$55.2 million decreased from the previous year's Net Income of \$59.7 million by \$4.5 million or 7.5%. We continued to strengthen our processes over this past fiscal year by implementing new steps that now require retailers to return all tickets to customers; by continuing to conduct Mystery Shops; and by continuing to provide lottery retailers with the necessary tools, including training and technology to enhance customer service.

Processes strengthened in 2009/10

- ✓ Requiring retailers to return all tickets to customers
- ✓ Continuing to conduct Mystery Shops
- ✓ Providing lottery retailers with the necessary tools to enhance customer service

First Nations

The Government of Manitoba, in accordance with the requirements of the Criminal Code of Canada, is responsible for gaming in Manitoba. As such, Manitoba Lotteries has been appointed to act as its agent in the Conduct and Management of all gaming activity within the province.

In 2009/10 Manitoba Lotteries continued to provide support to the First Nations casino operators in Manitoba. During the fiscal year, Aseneskak Casino in The Pas completed the first phase of a four (4) year Slot Floor Refurbishment program. These changes were fully operational in December 2009 and Manitoba Lotteries provided \$0.7 million in capital financing for this project. These funds will be recovered over the five (5) year life of the equipment as authorized under the Gaming Agreement.

South Beach Casino enjoyed their first full year of expanded operations in 2009/10 from the previous year. In 2008/09 a hotel was developed and 300 slot machines were added to the gaming floor for a total of 600 machines. All costs of gaming equipment and supplies were funded by Manitoba Lotteries and are being recovered over a five (5) to seven (7) year term as authorized by the Gaming Agreement.

MLC Holdings Inc.

Manitoba Lotteries consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase capital assets for lease to Manitoba Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Lotteries operations and the Board reviews and approves capital purchases through the annual business planning and budget process. During the 2009/10 fiscal year, MLC Holdings Inc. acquired \$26.9 million in capital assets for lease to Manitoba Lotteries.

Liquidity and Capital Resources

Operating activities during 2009/10 provided Manitoba Lotteries with \$351.1 million in cash flows compared to \$338.9 million in the previous year, an increase of \$12.2 million or 3.6%. Non-cash working capital items increased by \$19.0 million. This was offset by increases in operating results of \$1.9 million and decreases in amortization of \$8.5 million.

Cash expended on property and equipment for 2009/10 totaled \$26.9 million. In 2008/09, Manitoba Lotteries spent \$31.2 million on property and equipment.

Manitoba Lotteries continues to be progressive by providing proven, state-of-the-art products, services and facilities to all customers and employees through the ongoing process of replacing gaming and security equipment. Not only does this support Manitoba Lotteries' corporate goals, it enhances service, reliability and gaming integrity.

Cash distributions to the Province of Manitoba resulted in a cash outflow of \$308.6 million compared to the previous year's \$303.0 million, representing an increase of 1.8%.

Risk Management

Manitoba Lotteries continues to use and enhance its integrated Enterprise Risk Management Framework for assessing and managing risks at all levels across the Corporation. This provides a consistent approach for addressing business risks at the strategic and business planning, project management and business process levels by:

- providing a common understanding of risks across business functions and units;
- providing management with an on-going assessment of potential risks to facilitate improved priority setting and decision making; and



Manitoba Lotteries continues to use and enhance its integrated Enterprise Risk Management Framework for assessing and managing risks at all levels across the Corporation.

- raising employee awareness and responsibility for managing these risks.

In the normal course of business, Manitoba Lotteries is exposed to a number of risks. These risks, and the actions taken to lessen and in some cases, mitigate them, are discussed below.

Operating Risk

Operating risk associated with processes, technology and people, addresses the risk of loss resulting from events such as system failures, breakdown in internal controls, human error and criminal activity. It has been proven that losses such as a measurable decline in client confidence, gaming integrity and corporate image can be as damaging for an organization as a direct financial loss.

Manitoba Lotteries management remains committed to strengthening the existing system of internal controls and minimizing operational risk as much as possible. This has already been partially addressed by assessing the amount of risk present in operating units, large scale projects as well as specific business processes.

Current areas of concentration continue to be towards: emergency preparedness planning, business continuity plans and disaster recovery planning. Additional attention to these areas will provide the organization with the ability to effectively respond to disasters as well as small and large scale business interruptions.

Technological Developments

The adoption of new technologies within the gaming industry continues, including the acceptance of industry-wide standards leading to increased convergence and integration across many systems, product lines and related processes. Manitoba Lotteries performed a pilot using downloadable game systems, which will allow the download of game themes from a secure server to

electronic gaming devices over the network. In addition, Manitoba Lotteries is working with other jurisdictions to develop common requirements and standards across Canada to streamline development and procurement of systems and devices. This will enable Manitoba Lotteries to continue to progress on their long-range VLT Product Refresh Strategy which will keep our product offering current and support our customers' and siteholders' suggestions. Manitoba Lotteries also continues to refine its business processes to optimize the efficiency and effectiveness of the new opportunities being presented.

Technological change is also helping Manitoba Lotteries to improve its customer service and enhance the overall guest experience, and will eventually provide an increased level of personalization across its many product lines. Finally, new technologies are providing management with better information, which will allow for more informed decision making. In addition, the Corporation has initiated a System Convergence initiative to provide the tools to enable interoperability between our various software applications and allow sharing of data across applications and lines of business for an enterprise view.

In 2009/10, Manitoba Lotteries selected the Lawson Financial System as their new ERP system. The new integrated system will be fully operational by June 1, 2010, which will enable the Corporation to meet the reporting requirements under International Financial Reporting Standards (IFRS) for the 2011/12 fiscal year. This system will enhance not only financial reporting but also the Corporation's ability to integrate leading practices and operational efficiencies into most areas of its operations.

As Manitoba Lotteries becomes more reliant on technology to support its business, the Corporation has developed various strategies to manage the risks

- Operating Risk
- Technological Developments
- Financial Risks

associated with new technologies. These include the development of formal technology strategies, architectures and roadmaps to help guide the Corporation's future direction. Manitoba Lotteries continues to invest significant resources in the area of information systems security and disaster recovery business continuity activities.

Financial Risks

The Corporation's exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counter party to fulfill its payment obligations, while low, is mitigated through Manitoba Lotteries' credit management and collection practices. The financial impact resulting from property losses or third-party liability claims are allayed through traditional risk management practices, such as maintaining adequate insurance coverage and coordinating loss mitigation strategies across the organization.

For the sixth consecutive year, Manitoba Lotteries has been recognized for excellence in government budgeting. The honour has been enhanced by special recognition in four (4) judging categories: effectiveness as a policy document, operating guide, financial plan and communications device. Manitoba Lotteries is committed to meeting the highest principles of government budgeting.

Internal Controls over Financial Reporting

Manitoba Lotteries management has proactively and voluntarily adopted a program to evaluate internal controls over financial reporting consistent with the guidelines under Canadian Securities Administrator's National Instrument 52-109.

Internal controls over financial reporting have been designed by management, with the participation of the President & Chief Executive Officer (CEO) and the Executive Vice President & Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2010, the Corporation's internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements in accordance with GAAP.

The CEO and CFO, together with management, after evaluating the effectiveness of Manitoba Lotteries disclosure controls and procedures as of March 31, 2010, have concluded that the Corporation's disclosure controls and procedures were proven to be adequate and effective.

There have been no material changes to the Corporation's internal controls over financial reporting during the year ended March 31, 2010.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that it will require all publicly accountable enterprises to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation's first financial statements under IFRS will be for the

fiscal year 2011/12. The Corporation will also be required to provide comparative information for the prior fiscal period.

As a result of this announcement, the Corporation is planning and preparing for the changes in financial reporting requirements. Based on its initial assessments, the Corporation currently believes that the transition to IFRS will not materially impact the manner in which it recognizes and measures revenues and net income. The Corporation's first financial statements presented in accordance with IFRS will be for the three month period ended June 30, 2011.

The Corporation has developed an IFRS implementation plan that addresses project management, accounting policy changes, reporting and disclosure changes, training and communication and business impacts. The following progress has been made in these areas:

A) PROJECT MANAGEMENT

The Corporation has created an IFRS Steering Committee to provide guidance during the IFRS implementation project and has developed a timeline for key project milestones and deliverables to ensure IFRS readiness for the fiscal year 2011/12.

B) ACCOUNTING POLICY CHANGES

The Corporation has completed its research and documentation of expected differences between its current accounting policies that are in accordance with Canadian GAAP and those to be adopted under IFRS. The Corporation is in the process of finalizing its future accounting policies that will be required under current IFRS standards. The area with the greatest potential for future impact on the Corporation's financial statements is measurement and disclosure of property and equipment.

The International Accounting Standards Board, which is responsible for developing IFRS, has activities currently underway which are expected to change certain IFRS. These changes may impact the Corporation. Therefore, the Corporation will continue to assess any changes made to IFRS standards as part of its implementation plan.

C) REPORTING AND DISCLOSURE CHANGES

The Corporation is currently considering the financial statement presentation and disclosure options available to it upon initial changeover to IFRS and is developing ongoing reporting mechanisms to capture future IFRS disclosure information. At the date of transition to IFRS, the Corporation has the option to adopt certain exemptions from the full retrospective application, presentation and disclosure requirements of certain IFRS. Of the available exemptions, the Corporation expects to apply the adoption of net book value as fair value of property and equipment.

The transition to IFRS will affect presentation and measurement of balances and transactions included in the Corporation's interim and annual consolidated financial statements and related notes.

D) TRAINING AND COMMUNICATION

The Corporation will regularly inform its key stakeholders about the anticipated effects of the IFRS transition. IFRS training for relevant finance staff is ongoing, while targeted programs for operational staff is underway to raise awareness of the accounting impact that future business decisions may potentially have under IFRS reporting standards. The Audit & Risk Management and Finance & Operations Committees of the Corporation's Board receive project status updates.

2010/11

Continued Investment in:



IFRS BUSINESS IMPACTS

The Corporation is considering what effects the IFRS transition will have on its business policies and activities. The following areas are likely to be impacted:

- Internal controls over financial reporting;
- Restatement and analysis of prior year results in order to provide comparative information;
- Budgeting and forecasting activities during the IFRS transition year, 2010/11.

IFRS TRANSITIONAL OPENING BALANCE SHEET

The Corporation is quantifying each of its measurement differences identified between Canadian GAAP and IFRS as at April 1, 2010 in order to prepare its opening IFRS balance sheet. Once each adjustment is finalized and assurance from external auditors is obtained, the Corporation plans to communicate the impact of these adjustments on its opening Total Assets and Total Liabilities.

This disclosure reflects expectations based on information available at the time of reporting. Changes in circumstances may cause the Corporation to revise its IFRS opening balance sheet and policy choices prior to the changeover date.

Outlook

Manitoba Lotteries' greatest opportunity to manage current operations is through revenue generation and cost containment. To ensure the long-term sustainability of revenues and income streams, the Corporation continues to reinvest in its facilities, non-gaming amenities and in new gaming technology. We remain focused on positioning the Casinos as a total entertainment experience by improving the entertainment facilities and food and beverage

operations, while continuing to introduce new and exciting gaming options. During Manitoba Lotteries business planning for the 2010/11 fiscal year, the Corporation identified a number of initiatives that will continue to deliver new and innovative entertainment options to the Casinos, Video Lotto and Lottery customers.

Manitoba Lotteries support for the community is outlined within a governing Corporate Social Responsibility (CSR) Policy. Financial processes are used so all matters of CSR including Community Support, French Language services, Responsible Gaming, Sustainable Development and People Services are considered and supported across the Corporation's operations. This approach augments the value of the business decisions the Corporation makes so its decisions are consistent with the best interest of its stakeholders.

Consolidated Financial **Statements**

OF MANITOBA LOTTERIES CORPORATION,
FOR THE YEAR ENDED MARCH 31, 2010

Management Report

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. Management designed such internal controls, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Ernst & Young LLP, they reviewed the Corporation's internal controls to the extent that they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Audit Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2010.

(originally signed by)

Winston Hodgins
President & CEO

(originally signed by)

Tracy Graham
Executive Vice President,
Finance & CFO

Auditors' Report

TO THE BOARD OF DIRECTORS OF
MANITOBA LOTTERIES CORPORATION

We have audited the consolidated balance sheet of Manitoba Lotteries Corporation as at March 31, 2010 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(originally signed by)

Ernst & Young LLP
Chartered Accountants

WINNIPEG, CANADA
MAY 21, 2010

Consolidated Balance Sheet

MARCH 31, 2010 (IN THOUSANDS)

	Notes	2010	2009
Assets			
CURRENT ASSETS			
Cash		\$ 27,491	\$ 24,629
Accounts receivable	3	9,600	15,506
Inventories	4	2,628	2,907
Prepaid expenses	5	2,107	2,411
		41,826	45,453
PROPERTY AND EQUIPMENT	6	156,735	162,759
OTHER ASSETS	7	4,794	5,040
		\$ 203,355	\$ 213,252
Liabilities and Retained Earnings			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	\$ 35,674	\$ 31,153
Payable to the Province of Manitoba		1,673	3,580
Current portion of long-term debt	9	17,562	13,482
		54,909	48,215
LONG-TERM DEBT	9	142,621	159,494
PROVISION FOR EMPLOYEE PENSION BENEFITS	10	825	543
TOTAL LIABILITIES		198,355	208,252
Commitments and contingencies	14		
RETAINED EARNINGS		5,000	5,000
		\$ 203,355	\$ 213,252

[see accompanying notes to the consolidated financial statements]

On behalf of the Board,

(originally signed by)

Tim Valgardson

Director & Chair of the Board of Directors

(originally signed by)

Gerald Rosenby

Director & Chair of the Audit Committee

Consolidated Statement of Net Income, Comprehensive Income and Retained Earnings

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

	Notes	2010	2009
REVENUE			
Revenue		\$ 767,562	\$ 775,620
Cost of sales		212,071	225,453
		555,491	550,167
EXPENSES			
Operating expenditures		135,387	133,619
Amortization		30,527	39,030
Interest expense - long-term		10,309	10,998
Goods and Services Tax		8,277	7,158
		184,500	190,805
INCOME BEFORE ALLOCATIONS AND PAYMENTS		370,991	359,362
ALLOCATIONS AND PAYMENTS	13		
WCLC partner equalization		3,325	3,024
Payment to Government of Canada		2,333	2,345
Gaming Commission fees & Crown levy		2,824	3,094
First Nations allocation		37,325	34,273
Manitoba Jockey Club Inc. contribution		4,746	4,328
Tourism contribution		6,251	-
Responsible gaming funding		3,466	3,387
Casino bingo volunteer program		4,048	4,131
		64,318	54,582
NET INCOME AND COMPREHENSIVE INCOME		306,673	304,780
RETAINED EARNINGS, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(306,673)	(304,780)
RETAINED EARNINGS, END OF THE YEAR		\$ 5,000	\$ 5,000

(see accompanying notes to the consolidated financial statements)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

	Notes	2010	2009
OPERATING ACTIVITIES			
Net income and comprehensive income		\$ 306,673	\$ 304,780
Add (deduct) items not involving cash:			
Amortization related to property and equipment		30,281	38,784
Amortization on assets related to First Nations Casinos		2,655	2,894
Amortization related to other assets		246	246
Gain on disposal of property and equipment		(13)	(7)
Provision for employee pension benefits		282	164
		340,124	346,861
Net change in non-cash working capital items	16	11,010	(7,991)
CASH PROVIDED BY OPERATING ACTIVITIES		351,134	338,870
INVESTING ACTIVITIES			
Purchase of property and equipment		(26,912)	(31,174)
Proceeds from disposal of property and equipment		13	10
CASH USED IN INVESTING ACTIVITIES		(26,899)	(31,164)
FINANCING ACTIVITIES			
Cash distributions to the Province of Manitoba:			
Current year		(305,000)	(301,200)
Prior year		(3,580)	(1,782)
Proceeds from long-term debt		700	5,739
Repayment of long-term debt		(13,493)	(13,611)
CASH USED IN FINANCING ACTIVITIES		(321,373)	(310,854)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR		2,862	(3,148)
CASH, BEGINNING OF THE YEAR		24,629	27,777
CASH, END OF THE YEAR		\$ 27,491	\$ 24,629
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid		\$ 10,625	\$ 11,374

(see accompanying notes to the consolidated financial statements)

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

1. Background

The Manitoba Lotteries Foundation was established by the Manitoba Lotteries Foundation Act. On July 27, 1993, the Act was amended and continued under the Manitoba Lotteries Corporation Act. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (Manitoba Lotteries) or the Corporation.

2. Significant Accounting Policies

(A) BASIS OF CONSOLIDATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and combine the accounts of Manitoba Lotteries and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to Manitoba Lotteries at cost. All intercompany transactions and accounts have been eliminated on consolidation.

(B) WESTERN CANADA LOTTERY CORPORATION

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the Canada Corporations Act on May 13, 1974. The Provincial Governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (Manitoba Lotteries for the Province of Manitoba). The proportionate share of WCLC's sales and cost of sales is included in the consolidated financial statements based on relative sales levels by jurisdiction.

(C) FIRST NATIONS CASINOS

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed Manitoba Lotteries to act as its agent in the Conduct and Management of the gaming regime. Through a selection

process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Lotteries maintaining the Conduct and Management authority over these casinos. Effective December 1, 2005, the Corporation received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations Casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

(D) REVENUE AND EXPENSES RECOGNITION

Revenue and expenses are recorded on an accrual basis except for lottery revenue. Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the on-line accounting system for sale to customers. Video lottery and other gaming revenue is recorded net of prizes paid. Administration fees related to First Nations are recorded in income as earned.

(E) PROPERTY, EQUIPMENT AND AMORTIZATION

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives.

Furniture and equipment	4-5 years
Gaming equipment	5 years
Casino stages	10 years
Buildings and parking lots	30 years
Leasehold improvements	Over term of lease
Capital lease - building	25 years
Assets related to First Nations Casinos	5-7 years
Other assets - (see note 7)	26 years

Capital assets related to First Nations Casinos under the Conduct and Management Agreement consist primarily of the cost of the gaming equipment and related computer equipment.

Notes to Consolidated Financial Statements (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

(F) GOODS AND SERVICES TAX

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense.

An input tax credit is claimed for GST paid on non-gaming expenditures.

(G) INVENTORIES

Inventories are valued at the lower of cost and replacement value for replacement parts and the lower of cost and net realizable value for all other inventory.

(H) PENSION PLANS

In accordance with the provisions of the Civil Service Superannuation Act (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability.

For employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund, a pension liability is established. This liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. Actuarial gains and losses are recognized in income immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates.

(I) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities are translated at the year-end exchange rate while non-monetary assets and liabilities and revenue and expenses are translated at

the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in income during the period they occur.

(J) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(K) PROMOTIONAL ALLOWANCES

The retail value of food, beverages and other items provided on a complimentary basis to customers has been included in gross revenue and a corresponding amount has been deducted as promotional allowances. Costs of providing these promotional allowances have been included in operating expenses.

(L) LOYALTY POINTS PROGRAM

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos. The retail value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The future redemption liability is included in accounts payable and accrued liabilities and is based on an assessment of anticipated point redemptions and point value. The Corporation will adjust the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the results of operations.

(M) FINANCIAL INSTRUMENTS

In accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, the Corporation has classified all financial instruments into one of the following

Notes to Consolidated Financial Statements (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

2. Significant Accounting Policies (continued)

five categories: held for trading, held to maturity investments, available for sale financial assets, loans and receivables and other financial liabilities. All financial instruments are included on the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the consolidated balance sheet.

(N) CHANGES IN ACCOUNTING POLICIES

During the year, the Corporation adopted the following CICA Handbook sections:

Section 3064 Goodwill and Intangible Assets establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets as well as determining when intangible assets can be recognized. The adoption of this standard has had no impact on the Corporation's consolidated financial statements.

Amendments to Section 3862 Financial Instruments – Disclosure enhances disclosure requirements about fair value measurements. Specifically, financial instruments recognized at fair value on the consolidated balance sheet must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Corporation discloses information surrounding the fair value measurement associated with financial instruments in note 15.

(O) RECENT ACCOUNTING PRONOUNCEMENTS

CICA Handbook Section 1601 Consolidated Financial Statements and Section 1602 Non-Controlling Interests establish standards for the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent and are effective for fiscal years beginning on or after January 1, 2011. The Corporation does not expect these sections to have an impact on the consolidated financial statements.

3. Accounts Receivable

	2010	2009
Western Canada Lottery Corporation	\$ 5,140	\$ 5,903
Trade	3,048	7,441
First Nations	906	1,588
Goods and Services Tax	250	330
Employee computer program	256	200
Lottery retailers	-	44
	\$ 9,600	\$ 15,506

Notes to Consolidated Financial Statements (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

4. Inventories

	2010	2009
Replacement parts	\$ 1,462	\$ 1,867
Bingo paper	462	375
Breakopen tickets	345	385
Restaurant	148	130
Store merchandise	211	150
	\$ 2,628	\$ 2,907

5. Prepaid Expenses

	2010	2009
Maintenance contracts	\$ 1,105	\$ 1,424
Insurance	461	402
Entertainer and sponsorship deposits	109	186
Rent	85	77
Other	347	322
	\$ 2,107	\$ 2,411

6. Property and Equipment - 2010

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 5,798	\$ -	\$ 5,798
Furniture and equipment	113,768	87,468	26,300
Gaming equipment	165,199	135,462	29,737
Casino stages	5,972	5,972	-
Buildings and parking lots	157,573	70,803	86,770
Leasehold improvements	5,643	5,347	296
Capital lease - building	688	302	386
Assets related to First Nations Casinos [see note 2(c)]	19,028	11,580	7,448
	\$ 473,669	\$ 316,934	\$ 156,735

Notes to Consolidated Financial Statements (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

6. Property and Equipment
(continued) - 2009

	Cost	Accumulated Amortization	Net Book Value
Land	\$ 5,798	\$ -	\$ 5,798
Furniture and equipment	100,395	79,340	21,055
Gaming equipment	156,951	118,074	38,877
Casino stages	5,972	5,972	-
Buildings and parking lots	153,287	66,326	86,961
Leasehold improvements	5,643	5,308	335
Capital lease - building	688	276	412
Assets related to First Nations Casinos [see note 2(c)]	18,246	8,925	9,321
	\$ 446,980	\$ 284,221	\$ 162,759

The net carrying value of property and equipment not in use at March 31, 2010 is \$13,965 [2009 - \$4,719]. No amortization is recorded for these assets.

7. Other Assets

The Corporation has entered into an agreement for the right to use 22.28 acres of land for 200 years. The land is being used for parking facilities at the McPhillips Station Casino. The facilities became available for use during the 2004 fiscal year, at which time the Corporation began amortizing the asset over the life of the adjacent casino. The asset is presented net of accumulated amortization of \$1,587 [2009 - \$1,341] [see note 2(e)].

8. Accounts Payable and Accrued Liabilities

	2010	2009
Trade	\$ 24,449	\$ 21,213
Vacation	8,051	7,168
Interest	822	830
Jackpot provision	1,973	1,449
Province of Manitoba taxes	379	493
	\$ 35,674	\$ 31,153

Notes to Consolidated Financial Statements (CONTINUED)
 FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

9. Long-Term Debt

	2010	2009
Province of Manitoba, bearing interest at 6.950%, interest only payable semi-annually, with all principal due at maturity on August 30, 2010.	\$ 135,000	\$ 135,000
Province of Manitoba, bearing interest at 5.250%, repayable in quarterly principal installments of \$1,071 plus interest until June 30, 2011.	5,357	9,643
Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of \$1,071 plus interest until September 30, 2011.	6,429	10,714
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of \$679 plus interest, until May 10, 2012. The interest rate on the debt at March 31, 2010 was 0.7890%.	6,107	8,822
Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of \$84 plus interest until August 31, 2012.	2,444	3,455
Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of \$96 plus interest until July 31, 2013.	3,826	4,974
Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of \$12 plus interest until February 26, 2015.	688	-
Capital lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of \$64 until July 13, 2017.	332	368
	160,183	172,976
Less current portion of long-term debt and capital lease obligation	17,562	13,482
	\$ 142,621	\$ 159,494

During the year the Corporation received a commitment from the Province of Manitoba to refinance the long-term debt in the amount of \$135,000 that matures on August 30, 2010. The Province has waived the right to demand repayment of this long-term debt up to and including March 31, 2011 and will set the repayment term at 20 years. It is expected the interest rate will be 5.050%.

Notes to Consolidated Financial Statements (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

9. Long-Term Debt (continued)

Annual payments in future years including expected refinancing are as follows:

	Loans	Capital Lease Principal	Interest
2011	\$ 17,522	\$ 40	\$ 24
2012	14,978	43	21
2013	9,138	46	18
2014	7,273	50	14
2015	6,878	54	10
Subsequent years	104,062	99	8
	\$ 159,851	\$ 332	\$ 95

The fair market value of long-term debt at March 31, 2010 is \$163,522.

10. Provision for Employee Pension Benefits

The pension expense related to the Corporation's contributions to the Civil Service Superannuation Fund is \$3,590 (2009 - \$3,103) and is recorded in operating expenditures.

A pension liability of \$825 (2009 - \$543) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund plan. A loss of \$101 was experienced in the current year based on the most recently available triennial actuarial report of pension obligations as at December 31, 2007, and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is \$162 (2009 - \$228) and is recorded in operating expenditures.

11. Capital Structure

The Corporation's capital is comprised of retained earnings and long-term debt. The Corporation's objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives have remained unchanged over the fiscal years presented.

The Corporation is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income to the Province of Manitoba

Notes to Consolidated Financial Statements (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

12. Segmented Information

The Corporation's management has designated the areas of Video Lotto, Casinos and Lottery as its operating segments. All indirect costs have been allocated to the operating segments. A summary of these operating segments is as follows:

2010	Video Lotto	Casinos	Lottery	Total
REVENUE				
Revenue	\$ 340,478	\$ 221,577	\$ 205,507	\$ 767,562
Cost of sales	61,002	14,292	136,777	212,071
	279,476	207,285	68,730	555,491
EXPENSES				
Operating expenditures	24,908	103,338	7,141	135,387
Amortization	13,622	16,905	—	30,527
Interest expense – long-term	2,918	7,150	241	10,309
Goods and Services Tax	6,907	1,237	133	8,277
	48,355	128,630	7,515	184,500
Income before Allocations and Payments	231,121	78,655	61,215	370,991
Allocations and Payments	52,314	5,990	6,014	64,318
NET INCOME AND COMPREHENSIVE INCOME	\$ 178,807	\$ 72,665	\$ 55,201	\$ 306,673
2009	Video Lotto	Casinos	Lottery	Total
REVENUE				
Revenue	\$ 354,235	\$ 210,798	\$ 210,587	\$ 775,620
Cost of sales	72,136	13,690	139,627	225,453
	282,099	197,108	70,960	550,167
EXPENSES				
Operating expenditures	11,187	117,149	5,283	133,619
Amortization	23,856	15,174	—	39,030
Interest expense – long-term	3,584	7,173	241	10,998
Goods and Services Tax	6,321	777	60	7,158
	44,948	140,273	5,584	190,805
Income before Allocations and Payments	237,151	56,835	65,376	359,362
Allocations and Payments	42,691	6,200	5,691	54,582
NET INCOME AND COMPREHENSIVE INCOME	\$ 194,460	\$ 50,635	\$ 59,685	\$ 304,780

Notes to Consolidated Financial Statements (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

13. Allocations and Payments

(A) WCLC PARTNER EQUALIZATION

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where Manitoba Lotteries provides economic benefit equalization specific to salary costs of head office employees resident in Manitoba. The cost to the Corporation for this allocation for the 2010 fiscal year is \$3,325 (2009 - \$3,024).

(B) PAYMENT TO GOVERNMENT OF CANADA

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of \$24,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2010 fiscal year is \$2,333 (2009 - \$2,345).

(C) GAMING COMMISSION FEES & CROWN LEVY

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy. Funding provided to MGCC and Crown Corporations Council in the 2010 fiscal year is \$2,824 (2009 - \$3,094).

(D) FIRST NATIONS ALLOCATION

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba.

(E) MANITOBA JOCKEY CLUB INC. CONTRIBUTION

The Corporation pays the Manitoba Jockey Club Inc. a portion of the revenue generated by the VLTs at Assiniboia Downs as a contribution to support horse racing in the Province.

(F) TOURISM CONTRIBUTION

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

(G) RESPONSIBLE GAMING FUNDING

Funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

Total investment in responsible gaming initiatives

	2010	2009
Amounts included in operating expenditures	\$ 566	\$ 725
Responsible gaming funding	3,466	3,387
	\$ 4,032	\$ 4,112

(H) CASINO BINGO VOLUNTEER PROGRAM

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba. Payments made to these organizations for the 2010 fiscal year amounted to \$4,048 (2009 - \$4,131).

14. Commitments and Contingencies

(A) LEASE OBLIGATIONS

The future minimum rental payments relating to operating leases are as follows:

2011	\$ 1,427
2012	508
2013	335
2014	287
2015	260
Subsequent years	963
	\$ 3,780

Notes to Consolidated Financial Statements (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

(B) Incidental to the nature of its business, the Corporation is defending various legal actions and claims that are pending. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate provisions have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

The Corporation has been named as a party to a lawsuit related to Scratch 'n Win lottery tickets. The matter is ongoing and any liability related to this claim is not determinable at this time.

15. Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, payable to the Province of Manitoba, and long-term debt. The Corporation is exposed to interest rate, liquidity, foreign exchange and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates.

INTEREST RATE RISK

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated through the use of fixed-rate long-term debt.

LIQUIDITY RISK

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation mitigates this risk through cash and long-term debt management. Trade payables are due within one year and long-term debt is repayable in either quarterly or monthly installments.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Corporation's income that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation mitigates this risk through its contract and purchasing practices.

CREDIT RISK

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through its credit management and collection practices. The Corporation establishes a reasonable allowance for non-collectible amounts which is netted against accounts receivable. The maximum credit risk exposure associated with accounts receivable is the total carrying value and it is management's opinion that the Corporation does not have significant concentration risk.

The status of accounts receivable in relation to when they are due and payable is as follows:

Neither impaired nor past due	\$ 9,572
Not impaired and past due as follows:	
Within 30 days	9
31 to 60 days	11
61 to 90 days	2
Over 90 days	6
Allowance for doubtful accounts	-
	\$ 9,600

FAIR VALUE

The fair value of the Corporation's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received.

The Corporation has made the following classifications of its financial instruments:

Cash is classified as held for trading and measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in income.

Notes to Consolidated Financial Statements (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

15. Financial Instruments (continued)

Accounts receivable are classified as loans and receivables and recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, payable to the Province of Manitoba and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Unless otherwise stated, the fair value of the Corporation's financial instruments approximates their carrying value.

Financial Instruments recorded at fair values, classified using the fair value hierarchy are as follows:

	Level 1	Level 2	Level 3	Total
Cash	\$ 27,491	\$ -	\$ -	\$ 27,491
	\$ 27,491	\$ -	\$ -	\$ 27,491

16. Supplemental Cash Flow Information

	2010	2009
Net decrease (increase) in current assets		
Accounts receivable	\$ 5,906	\$ 1,529
Inventories	279	(456)
Prepaid expenses	304	347
	6,489	1,420
Net increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	4,521	(9,411)
Net change in non-cash working capital items	\$ 11,010	\$ (7,991)

17. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

Consolidated Schedule of Net Income and Comprehensive Income

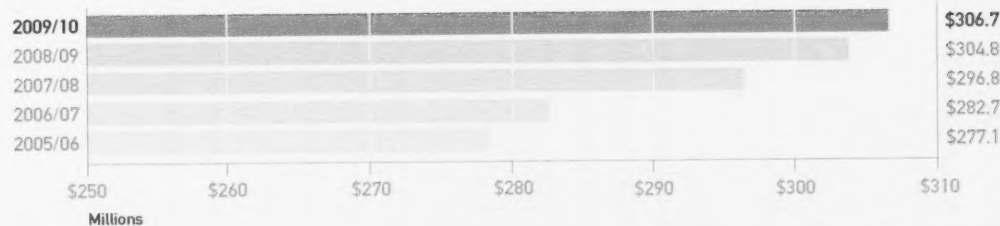
FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

	2010	2009
REVENUE		
Revenue	\$ 767,562	\$ 775,620
Cost of sales	212,071	225,453
	555,491	550,167
EXPENSES		
Operating Expenditures		
Salaries and benefits	89,263	86,259
Maintenance	15,004	12,622
Tourism marketing	10,447	9,948
Property taxes	4,053	4,020
Utilities	2,474	2,706
Supplies and equipment	4,280	4,444
Consultant fees	2,649	6,071
Telecommunications	1,372	1,597
Transportation and vehicles	1,493	1,644
Community support	1,632	1,749
Sundry	2,720	2,559
	135,387	133,619
Amortization	30,527	39,030
Interest expense - long-term	10,309	10,998
Goods and Services Tax	8,277	7,158
	184,500	190,805
INCOME BEFORE ALLOCATIONS AND PAYMENTS	370,991	359,362
ALLOCATIONS AND PAYMENTS	64,318	54,582
NET INCOME AND COMPREHENSIVE INCOME	\$ 306,673	\$ 304,780

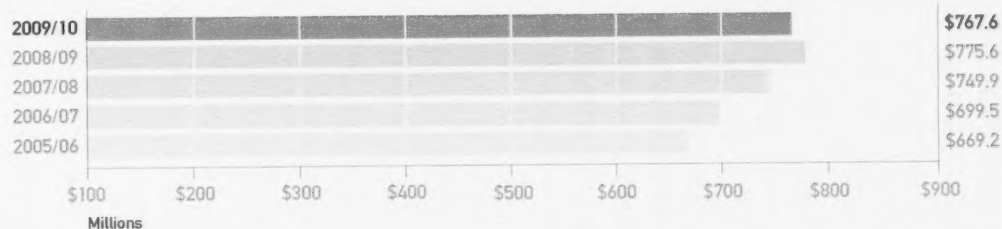
[see accompanying notes to the consolidated financial statements]

Highlights

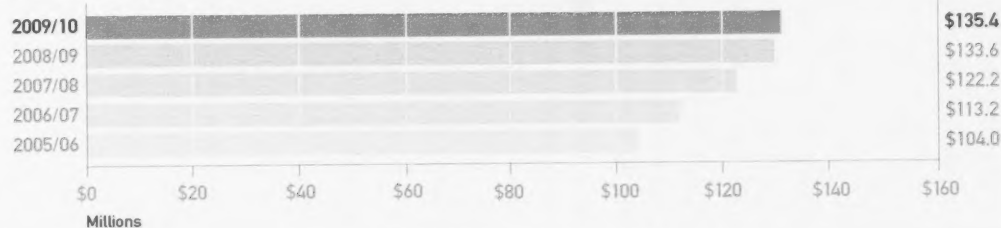
Net Income



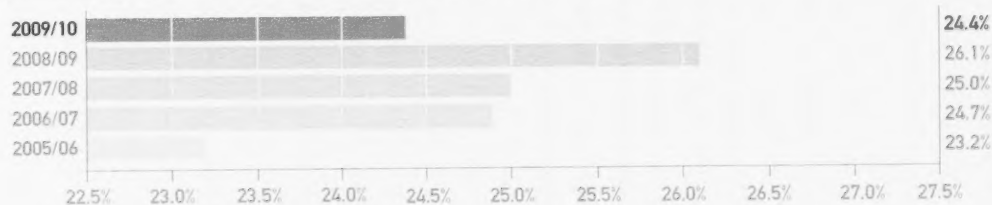
Revenue



Operating Expenses



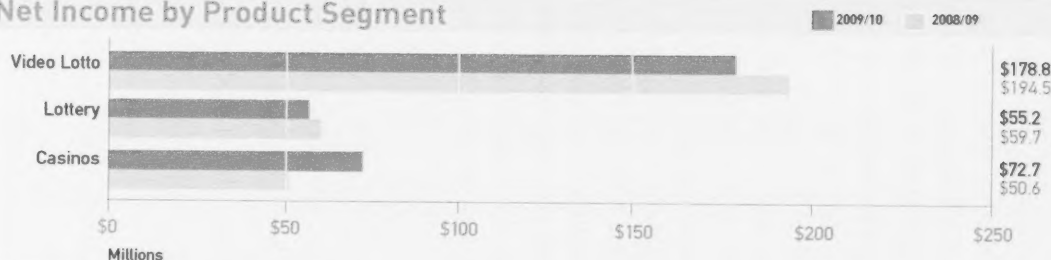
Operating Expense as a Percent of Net Revenue*



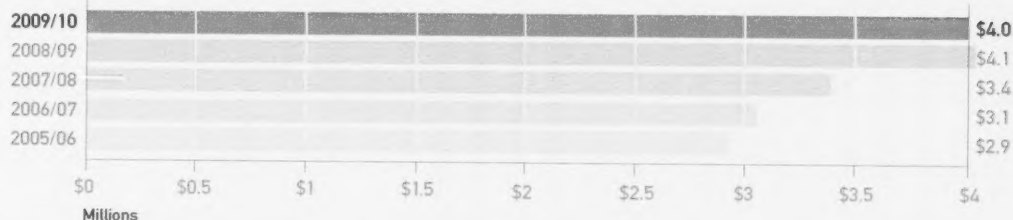
*Gross Revenue net of cost of sales

Highlights

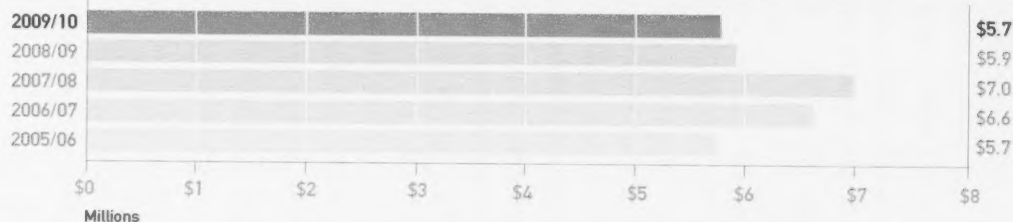
Net Income by Product Segment



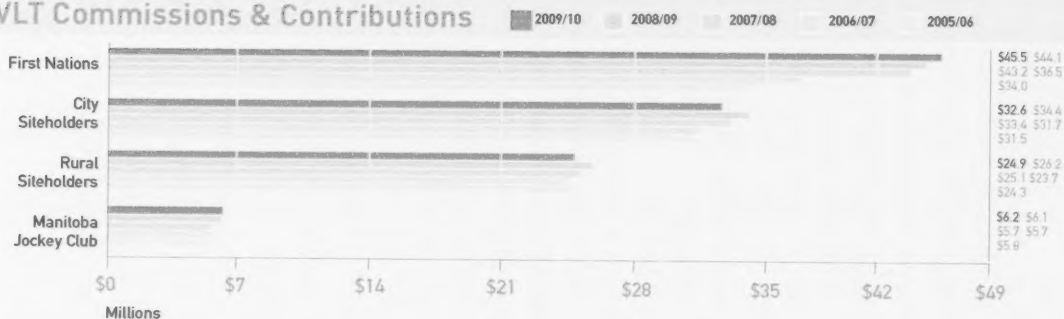
Responsible Gaming



Community Support CORPORATE SPONSORSHIP AND CHARITABLE/COMMUNITY ORGANIZATION FUNDING



VLT Commissions & Contributions



Our environmental Responsibility

As part of our pledge to sustainable development, we are constantly working to reduce our environmental footprint in all aspects of our business. This includes making responsible paper and ink choices when we produce our Annual Report. The following environmental savings were achieved based on these choices.

Eco savings audit*

5,763

KILOGRAMS
OF WOOD

A total of 41 trees that
supply enough oxygen
for 21 people annually.

70,231

LITRES
OF WATER

Enough water to
take 1,079 eight
minute showers.

13

MIN BTUS
OF ENERGY

Enough energy to
power an average
household for 52 days.

1,747

KILOGRAMS
OF EMISSIONS

Carbon sequestered
by 45 tree seedlings
grown for 10 years.

511

KILOGRAMS OF
SOLID WASTE

Trash thrown away
by 245 people in a
single day.

*Note: The Eco Savings Audit was calculated based on information from the Environmental Defense Fund Calculator. Original estimates were in Imperial units and have been converted to Metric units. The estimates pertain to the use of post consumer recycled fiber content. For more information please visit edf.org/papercalculator



100%

